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Software Eases Banks' Loan Loss Allowance

By Jeff Horwitz

WebEquity, a Nebraska company offering back-office technology for small, midsize and super-regional banks, is pitching the industry on a faster and cleaner way to calculate allowances for loan and lease losses.

WebEquity's chief executive, Doug McGregor, says most of the banks the company surveyed still calculate ALLL, which is supposed to account for all estimated inherent losses in an existing portfolio, by bringing together loan-level data, credit information and economic assumptions into a spreadsheet. The company's ALLL cloud software produces the same result, but with a standardized format that McGregor says speeds up the process and reduces the possibility of errors.

"What would take three or four days would be a matter of hours," says Marty Opdahl, chief credit officer at the \$860 million-asset American Bank Center in North Dakota and a beta user of the system for the last two quarters. "Examiners can easily look at the information generated by this, and that's what we want them looking at – not our process."

WebEquity's product also allows a bank to readily compare its ALLL numbers with those of regional peers, using data drawn from the Federal Deposit Insurance Corp.

The ALLL analysis software is the second product McGregor's company has released in recent months aimed at the back-office technology market. Part of the company's pitch is that being able to plug in data to a specially designed ALLL program will take less time than calculating losses independently. Most of the banks McGregor dealt with were using self-built Excel

macros to perform calculations, "and none of them had the same methods for calculating the ALLL."

The ALLL software follows another recent WebEquity effort to target a perceived back-office technology hole. In September WebEquity launched a risk management program in an effort to

compete with Fair Isaac Corp.'s LiquidCredit and Harland Financial Solutions Inc.'s CreditQuest. While there are likewise other tech providers in the ALLL business, McGregor insists that it is an underserved market.

"It's not a glamorous side of the bank, an outward-facing thing like mobile or payments," he says. But given regulatory pressure to ensure adequate reserving, McGregor argues that the product could help bankers convince examiners of their capacity to lend.

"Examiners want to see audit trails of how you're doing that calculation," he says.

Aside from the American Bank Center, WebEquity has been working with nine other banks. The WebEquity program's pricing is based on the volume of loans on a company's books. The cost can range from around \$7,000 a year for a bank with \$250 million in assets to more than \$70,000 for a bank in the \$10 billion range.



THE PRIMARY BENEFITS of the new ALLL software include timesaving efficiencies and benchmarking capabilities, Opdahl says.

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